



CHINA-HONGKONG PHOTO PRODUCTS HOLDINGS LIMITED
中港照相器材集團有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 1123)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007**

HIGHLIGHTS

- Net profit attributable to shareholders of HK\$18.54 million and revenue of HK\$161 million
- Strong performance from Fun2Print business
- Interim dividend of HK1 cent and interim special dividend of HK2.8 cents per share declared

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	For the six months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
REVENUE	3	161,169	558,749
Cost of sales		(107,679)	(426,004)
Gross profit		53,490	132,745
Other income and gains		25,885	22,728
Selling and distribution costs		(27,843)	(30,284)
Advertising and marketing expenses		(3,921)	(12,001)
Administrative expenses		(27,373)	(37,149)
Other operating income, net		2,467	1,970
PROFIT BEFORE TAX	4	22,705	78,009
Tax	5	(4,170)	(8,685)
PROFIT FOR THE PERIOD		18,535	69,324
Attributable to:			
Equity holders of the Company		18,535	69,371
Minority interests		–	(47)
		18,535	69,324
DIVIDENDS	6		
Interim		11,638	44,225
Interim special		32,587	–
		44,225	44,225
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	7		
Basic		1.59 cents	5.96 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2007 (Unaudited) <i>HK\$'000</i>	31 March 2007 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		45,105	50,434
Investment properties		103,248	103,248
Prepaid land lease payments		3,167	3,271
Goodwill		35,878	35,878
Rental deposits		5,646	6,045
Deferred tax assets		3,449	5,597
		<u>196,493</u>	<u>204,473</u>
CURRENT ASSETS			
Inventories		24,574	22,789
Trade and bills receivables	8	16,748	18,601
Prepayments, deposits and other receivables		20,967	24,370
Financial assets at fair value through profit or loss		237,794	–
Tax recoverable		4,182	2,687
Cash and cash equivalents		684,916	965,257
		<u>989,181</u>	<u>1,033,704</u>
CURRENT LIABILITIES			
Trade and bills payables	9	12,552	16,609
Accrued liabilities and other payables		81,900	88,320
Interim dividend payable		11,638	–
Interim special dividend payable		32,587	–
		<u>138,677</u>	<u>104,929</u>
Total current liabilities		<u>138,677</u>	<u>104,929</u>
NET CURRENT ASSETS		<u>850,504</u>	<u>928,775</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,046,997</u>	<u>1,133,248</u>
NON-CURRENT LIABILITIES			
Provision for long service payments		2,739	2,739
Deferred tax liabilities		5,582	5,624
		<u>8,321</u>	<u>8,363</u>
Total non-current liabilities		<u>8,321</u>	<u>8,363</u>
Net assets		<u>1,038,676</u>	<u>1,124,885</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		116,383	116,383
Reserves		906,206	931,896
Proposed final dividend		–	60,519
		<u>1,022,589</u>	<u>1,108,798</u>
Minority interests		16,087	16,087
		<u>1,038,676</u>	<u>1,124,885</u>
Total equity		<u>1,038,676</u>	<u>1,124,885</u>

Notes:

1. ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of China-Hongkong Photo Products Holdings Limited (the “Company”) and its subsidiaries (collectively known as the “Group”) for the six months ended 30 September 2007 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 March 2007, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) as disclosed in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

2.1 Impact of new and revised HKFRSs

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised HKFRSs which are generally effective for accounting periods beginning on or after 1 April 2007. Except for the new and revised accounting policies and additional disclosures in certain cases, the adoption of these new and revised standards and interpretations has had no material impact on these interim condensed consolidated financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The principal changes in accounting policies are as follows:

The revised HKAS 1 affects the disclosures of qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Group regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The HKFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of HKAS 32 “Financial Instruments – Presentation and Disclosure”.

The HK(IFRIC)-Int 10 states that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

2.2 Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these interim condensed consolidated financial statements.

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 12	Service Concession Arrangements

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

The HKAS 23 (Revised) and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 January 2009 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that the adoption of the HKFRS 8 may result in new or amended disclosures. The Group has already commenced an assessment of the impact of the other new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a significant impact on the results of operations and financial position.

3. SEGMENT INFORMATION

Segment information is presented on a primary segment reporting basis, by business segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the merchandise segment engages in the marketing and distribution of photographic developing, processing and printing products and sale of photographic merchandises;
- (b) the service segment engages in the provisions of film processing, photo-finishing services and technical services for photographic developing and processing products; and
- (c) the corporate and others segment comprises the Group's investment property business together with corporate income and expense items.

During the period, management changed the presentation of segment information from wholesale and retail segments to merchandise and service segments. The management considered that the change provides a more appropriate presentation of the Group's existing operating structure. Comparative information has been restated to conform with the current period's presentation.

The following table presents revenue and results for the Group's business segment for the six months ended 30 September 2007 and 2006.

	Merchandise		Service		Corporate and others		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Segment revenue:										
Sales to external customers	97,423	490,720	63,746	68,029	-	-	-	-	161,169	558,749
Intersegment sales	11,583	53,068	2,439	2,654	-	-	(14,022)	(55,722)	-	-
Other income and gains	37	719	109	1,474	8,282	991	-	-	8,428	3,184
Total	<u>109,043</u>	<u>544,507</u>	<u>66,294</u>	<u>72,157</u>	<u>8,282</u>	<u>991</u>	<u>(14,022)</u>	<u>(55,722)</u>	<u>169,597</u>	<u>561,933</u>
Segment results	<u>(302)</u>	<u>49,764</u>	<u>5,634</u>	<u>10,452</u>	<u>(84)</u>	<u>(1,751)</u>	<u>-</u>	<u>-</u>	<u>5,248</u>	<u>58,465</u>
Unallocated income									17,457	19,544
Profit before tax									22,705	78,009
Tax									(4,170)	(8,685)
Profit for the period									<u>18,535</u>	<u>69,324</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 September	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income	(17,457)	(12,771)
Gain on disposal of an associate	-	(6,773)
Fair value gain of financial assets at fair value through profit or loss	(6,134)	-
Cost of inventories sold*	79,904	418,191
Cost of services provided*	27,770	25,976
Depreciation	8,414	10,148
Recognition of prepaid land lease payments	104	345
Provision/(write-back of provision) against inventories*	5	(18,163)
Write-off of receivables and prepayments^	3,037	-
Write-back of payables and accrued liabilities^	<u>(5,096)</u>	<u>-</u>

* Included in "Cost of sales" on the face of the condensed consolidated income statement.

^ Included in "Other operating income, net" on the face of the condensed consolidated income statement.

5. TAX

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current – Hong Kong	1,916	8,111
Current – Mainland China	148	487
Deferred	2,106	87
	<hr/>	<hr/>
Total tax charge for the period	4,170	8,685
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Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 September 2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the period, after offsetting certain amounts of the tax losses carried forward by certain subsidiaries of the Group. Taxes on profits assessable in the People's Republic of China have been calculated at the rates of tax prevailing in the location in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

6. DIVIDENDS

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim – HK1 cent (six months ended 30 September 2006: HK3.8 cents) per ordinary share	11,638	44,225
Interim special – HK2.8 cents (six months ended 30 September 2006: Nil) per ordinary share	32,587	–
	<hr/>	<hr/>
	44,225	44,225
	<hr/> <hr/>	<hr/> <hr/>

At a meeting of the board of directors (the “Board”) held on 6 December 2007, the directors resolved to pay on 30 January 2008 an interim dividend of HK1 cent (six months ended 30 September 2006: HK3.8 cents) per ordinary share and an interim special dividend of HK2.8 cents (six months ended 30 September 2006: Nil) per ordinary share to shareholders whose names appear on the register of members of the Company on 18 January 2008 (Friday).

7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of the basic and diluted earnings per share for the six months ended 30 September 2007 and 2006 are based on:

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Earnings:</i>		
Profit attributable to ordinary equity holders of the Company for the purpose of basic earnings per share calculation	<u>18,535</u>	<u>69,371</u>

	For the six months ended 30 September	
	2007	2006
	(Unaudited)	(Unaudited)
<i>Number of shares:</i>		
Weighted average number of ordinary shares in issue during the period used for the purpose of basic earnings per share calculation	<u>1,163,828,377</u>	<u>1,163,828,377</u>

Diluted earnings per share amounts for the six months ended 30 September 2007 and 2006 have not been disclosed as there were no diluting events during the six months ended 30 September 2007 and 2006.

8. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days, except for certain well-established customers where the terms are extended to 120 days.

An aging analysis of the Group's trade and bills receivables as at the balance sheet date, based on the payment due date and net of impairment, is as follows:

	30 September	31 March
	2007	2007
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 3 months	16,663	16,686
4 to 6 months	46	808
7 to 9 months	39	43
Over 9 months	<u>–</u>	<u>1,064</u>
	<u>16,748</u>	<u>18,601</u>

9. TRADE AND BILLS PAYABLES

An aging analysis of the Group's trade and bills payables as at the balance sheet date, based on the date of goods purchased and services rendered, is as follows:

	30 September 2007 (Unaudited) HK\$'000	31 March 2007 (Audited) HK\$'000
Current to 3 months	10,591	11,498
Over 3 months	<u>1,961</u>	<u>5,111</u>
	<u><u>12,552</u></u>	<u><u>16,609</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

The termination of agreements with a key business partner coupled with a continued global slump in the sales of traditional imaging products have resulted in a downturn in revenue for the period under review. The Group's total revenue for the period ended 30 September 2007 has reduced to HK\$161 million, down by 71.2%, compared to the same period last year.

With further refinement of the Group's financial plan and a more aggressive approach in the marketing of digital products, we have achieved a profit attributable to shareholders of HK\$18.54 million, compared with HK\$69.37 million for the corresponding period last year. Earnings per share amount to HK1.59 cents.

Business Review

Merchandising

During the period under review, the market for traditional imaging products has continued to shrink which has seen the sales of traditional imaging products drop by 23.6% compared to the same period last year. However, with the shift of the market to digital products, digital camera sales remain one of the Group's strongest business areas. With new models and new product lines under way, digital camera sales have increased by 18.9%. The upswing in sales indicates a strong consumer interest in digital imaging technology, and that customers are satisfied with the latest FinePix models.

The increasing popularity of digital cameras has consequently resulted in an increase in the use of digital printing. The Group has seen increasing numbers of consumers printing digital images onto photographic paper. Instant products have also recorded a good performance in the period under review with an increase of 33.3%.

The contraction in the number of competitors across the region has also contributed to the Group's increased market share. In addition, an increased number of Frontier Minilabs are planning to renew their digital photo-printing machines. The total turnover of machines sold has increased by 37.8%, confirming that the market intends to continue to upgrade traditional machines to new digital technology.

Photofinishing And Technical Services

The strong price competition in the photofinishing business has proved to be a major challenge for the Group in the period under review. The Group has strategically closed six Fotomax shops during this period to maintain business profitability. This has seen the number of outlets decrease from 92 to 86.

Fotomax's key business continues to be its high-quality digital output services. More than 90% of the print orders derive from digital files rather than film. Photo finishing services have seen an increase of 1.4% compared with the corresponding period last year. The total number of digital prints amounted to 30.2 million and has increased by 2.8% compared to the same period last year. This growth has been due partly to the increasing popularity of digital photography and also to the introduction of new

“Digital Kiosks” across Hong Kong. These compact self-service touch-screen machines allow customers to enjoy instant photographic prints. The total number of digital kiosks has grown from 135 to 188 compared to the same period last year.

With more user-friendly software and higher user range, online printing is becoming more popular with younger consumers. This market segment has a very high take-up of the internet as a visual communication platform, and has resulted in the growth of online printing of more than 304.8%. The Group expects on-line sales to offset the losses from film sales and become a pillar of the retail business in the future.

Fun2Print including paper items, gift items and other album services remain extremely popular, with sales increased by 330% compared to the same period last year.

To celebrate Fotomax’s 25th anniversary, a major consumer promotion was held from June to September 2007. The promotion conducted as a photographic competition touched on highly popular topics and prominent themes including the “10th Anniversary of Hong Kong’s Handover”, “Collective Memories of Hong Kong”, “When We Were Small”, “My Beloved Pet” and “Unforgettable Love”. More than 500 photographic entries were received.

BRAND MANAGEMENT

Strategic brand management enhanced the Group’s market share, profitability and brand equity. Integrated brand management not only reinforced long-term customer loyalty, but also served to drive growth through the development of new market segments. During the period under review, strategic campaigns incorporating public relations, advertising and promotional activities were implemented which delivered positive brand reinforcement against our target audiences.

The Group’s products have been recognised globally for their quality with prestigious awards recognizing the digital camera and the minilab. Specifically, FinePix S5Pro won the EISA Award as European Advanced Camera of the Year 2007-2008. As well, FinePix Z5fd and the Frontier 550 have been selected for the Technical Image Press Association (TIPA) Awards of the Year 2007. During summer, new digital cameras FinePix F47fd and F50fd were launched and were promoted through print and television advertising which resulted in expanded sales and market share. The Group’s message emphasized unique product characteristics such as “high sensitivity and excellent picture quality”, and achieved target audiences’ top-of-mind recognition.

Effective trade promotions in collaboration with several leading dealers in the Hong Kong retail market were also undertaken. To stimulate sales and to maintain customer relationships in the photographic paper side of the business, advertorial promotions were undertaken. These promotions reminded readers of the inherent value of capturing life’s important milestones in print, a sentiment reinforced by Director Li Lik Chi.

In its retail business, the Group has allocated substantial resources aimed at raising brand awareness of Fotomax and promoting greater demand for digital photo printing.

Under Fotomax's two successful brands "Fun2Print" and "FotoPress", the Group has continued to develop new market opportunities associated with keywords "FUN" and "PHOTO". These included a Mother's Day promotion featuring new crystal products in Mother's Day cards while new Hello Kitty and My Melody products were introduced to celebrate Fotomax's 25th anniversary as part of a photographic promotion and television advertising campaign.

"FotoPress" is a print-on-demand service that has proven to be an effective and economical way to produce quality marketing materials for corporate customers. We anticipate that digital imaging products and one-stop digital printing services will expand and will provide new and lucrative revenue streams within the retail business.

FINANCIAL RESOURCES

The financial position of the Group remained sound and healthy during the period under review. As at 30 September 2007, the Group's cash and bank balances were approximately HK\$685 million with a zero gearing ratio. Trade receivables of HK\$17 million were recorded for the period, while inventory was HK\$25 million. The Group had no significant contingent liabilities as at 30 September 2007.

OUTLOOK

The Group believes Hong Kong's robust economy, which is benefiting from strong support from Mainland China, will continue to act as a counterweight to the market's fierce competition and rising costs. The Group remains optimistic about business prospects and will continue to take advantage of the special opportunities presented by rising tourism numbers as well as the growing internet usage by Hong Kong's younger generation. The Group will continue to capitalize on these opportunities to grow the digital businesses.

In addition to expanding our established services through organic growth, the Group also plans to introduce new schemes to foster new digital printing services. The Group will continue to strengthen its profitability and growth by actively seeking out new targets suitable for acquisition and investment.

CLOSURE OF SHARE REGISTER

The register of members will be closed from 15 January 2008 (Tuesday) to 18 January 2008 (Friday), both days inclusive, during which period no transfer of shares will be registered for the purpose of ascertaining who is entitled to the interim dividends. In order to qualify for the proposed interim dividends, all transfers accompanied by the relevant share certificates must be lodged with Tricor Tengis Limited, the Hong Kong Branch Registrars of the Company, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 14 January 2008 (Monday).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

AUDIT COMMITTEE

The Company has an audit committee (the “Committee”) which was established in accordance with the Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises a total of four independent non-executive directors of the Company after the resignation of a director on 20 August 2007. The Group’s financial statements for the period ended 30 September 2007 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and that adequate disclosures have been made.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules (the “CG Code”) throughout the period ended 30 September 2007, except that:–

- (1) The roles of chairman and chief executive officer have not been separated. Dr Sun Tai Lun, Dennis is the chairman/chief executive officer of the Company. The Board believes that vesting the role of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.
- (2) The non-executive directors have not entered into any service contract with the Company and are not appointed for a specific term but are subject to retirement by rotation at the Company’s annual general meeting; and
- (3) No written guidelines have been established for employees in respect of their dealings in the securities of the Company as only the directors are likely to be in possession of unpublished price-sensitive information of the Company.

MEMBERS OF THE BOARD

As of the date of this announcement, Dr Sun Tai Lun, Dennis is the chairman of the Board, Mr Tang Kwok Tong, Simon, Ms Ng Yuk Wah, Eileen and Mr Sun Tao Hung, Stanley are the executive directors. Mr Au Man Chung, Malcolm, Mr Li Ka Fai, David, Mr Liu Hui, Allan and Dr Wong Chi Yun, Allan are the independent non-executive directors.

On behalf of the Board
Sun Tai Lun
Chairman

HKSAR, 6 December 2007
<http://www.chinahkphoto.com.hk>